

**STATE OF MONTANA
CONSUMER COUNSEL**

**FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 2015**

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

January 2016

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the financial-compliance audit of the Montana Consumer Counsel for the two fiscal years ended June 30, 2015.

The audit was conducted by Rudd & Company under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily of the Legislative Auditor.

The Counsel's written response to the report is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

15C-11

STATE OF MONTANA
CONSUMER COUNSEL

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**ELECTED AND APPOINTED OFFICIALS
LEGISLATIVE CONSUMER COMMITTEE
2014-2015**

SENATORS

Robyn Driscoll (Appointed 05/15)

Janna Taylor (Appointed 05/15)

Terry Murphy (Appointed 05/13)

Mitch Tropila (Appointed 05/13)

REPRESENTATIVES

Mike Cuffe (Appointed 05/13)

Andrea Olsen (Appointed 05/15)

Pat Noonan (Appointed 05/13)

Consumer Counsel

Robert Nelson



RUDD & COMPANY^{INC.}

certified public accountants | business consultants

INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Report on the Financial Schedules

We have audited the accompanying financial schedules of the Consumer Counsel, which comprise fund equity for each fund as of June 30, 2015 and 2014, and the related schedules of Total Revenues & Transfers-in and schedules of Total Expenditures & Transfers Out for the years then ended, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial schedules. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial schedules, the financial schedules are prepared by the Consumer Counsel in accordance with state accounting policy, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Montana. The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Consumer Counsel as of June 30, 2015 and 2014, or changes in financial position or cash flows thereof for the year then ended.

Basis for Adverse Opinion on Regulatory Basis of Accounting

In both fiscal years 2014 and 2015 the department recorded an amount in Estimated Revenues & Transfers-In and an equal amount in the Budgeted Revenues & Transfers-In Over (Under) Estimated by Class labeled as Taxes. The Consumer Counsel does not generate revenue and should present zeroes in both categories. This resulted in the following errors on the Schedule of Total Revenues and Transfers In.

Account	Fiscal Year	Amount Presented	Over(Under) Stated
Estimated Revenues and Transfers-In	2014	\$1,634,474	\$1,634,474
Taxes	2014	(\$1,634,474)	\$1,634,474
Estimated Revenues and Transfers-In	2015	\$1,648,466	\$1,648,466
Taxes	2015	(\$1,648,466)	\$1,648,466

Adverse Opinion on Regulatory Basis of Accounting

In our opinion, because of the significance of the errors discussed in the "Basis for Adverse Opinion on Regulatory Basis of Accounting", the Schedules of Total Revenues and Transfers-In do not present fairly, the respective Total Revenues & Transfers-In of each fund of the Consumer Counsel for the years ended June 30, 2015 and 2014, in accordance with the accounting policy of the State of Montana as described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity and the Schedules of Total Expenditures and Transfers-Out present fairly, in all material respects, the fund equity of each fund of the Consumer Counsel as of June 30, 2015 and 2014, and the results of operations of the Consumer Counsel for the years then ended in accordance with the accounting policy of the State of Montana as described in Note 1.

Other Reporting Required by Government Auditing Standards

In Accordance with *Governmental Auditing Standards*, we have also issued our report dated January 5, 2016 on our consideration of the Consumer Counsel's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Rudd & Company, PLLC".

Helena, Montana
January 5, 2016

CONSUMER COUNSEL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2014	\$ <u>997,742</u>
ADDITIONS	
Nonbudgeted Revenues & Transfers-In	54
Direct Entries to Fund Equity	<u>1,505,988</u>
Total Additions	<u>1,506,042</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,212,586
Nonbudgeted Expenditures & Transfers-Out	<u>(515)</u>
Total Reductions	<u>1,212,071</u>
FUND EQUITY: June 30, 2015	\$ <u>1,291,713</u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FOR ALL FUNDS

	<u>State Special Revenue Fund</u>
FUND EQUITY: July 1, 2013	\$ <u>1,019,568</u>
ADDITIONS	
Nonbudgeted Revenues & Transfers-In	14
Direct Entries to Fund Equity	<u>1,298,195</u>
Total Additions	<u>1,298,209</u>
REDUCTIONS	
Budgeted Expenditures & Transfers-Out	1,320,650
Nonbudgeted Expenditures & Transfers-Out	<u>(615)</u>
Total Reductions	<u>1,320,035</u>
FUND EQUITY: June 30, 2014	\$ <u>997,742</u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FOR ALL FUNDS

	State Special Revenue Fund	Total
	<u> </u>	<u> </u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Charges for Services	\$ 54	\$ 54
Total Revenues & Transfers-In	54	54
Less: Nonbudgeted Revenues & Transfers-In	54	54
Prior Year Revenues & Transfers-In Adjustments		-
Actual Budgeted Revenues & Transfers-In	-	-
Estimated Revenues & Transfers-In	1,648,466	1,648,466
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>(1,648,466)</u>	\$ <u>(1,648,466)</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
 Taxes	\$ (1,648,466)	\$ (1,648,466)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>(1,648,466)</u>	\$ <u>(1,648,466)</u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FOR ALL FUNDS

	State Special Revenue Fund	Total
	<u> </u>	<u> </u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS		
Charges for Services	\$ 14	\$ 14
Total Revenues & Transfers-In	14	14
Less: Nonbudgeted Revenues & Transfers-In	14	14
Prior Year Revenues & Transfers-In Adjustments	<u> </u>	<u>0</u>
Actual Budgeted Revenues & Transfers-In	0	0
Estimated Revenues & Transfers-In	<u>1,634,474</u>	<u>1,634,474</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (1,634,474)</u>	<u>\$ (1,634,474)</u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS		
Taxes	<u>\$ (1,634,474)</u>	<u>\$ (1,634,474)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>\$ (1,634,474)</u></u>	<u><u>\$ (1,634,474)</u></u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FOR ALL FUNDS

	ADMINISTRATION PROGRAM	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 454,824	\$ 454,824
Employee Benefits	124,156	124,156
Total	<u>578,981</u>	<u>578,981</u>
Operating Expenses		
Other Services	523,970	523,970
Supplies & Materials	8,671	8,671
Communications	10,871	10,871
Travel	24,973	24,973
Rent	28,525	28,525
Other Expenses	36,081	36,081
Total	<u>633,090</u>	<u>633,090</u>
Total Expenditures & Transfers-Out	\$ <u>1,212,071</u>	\$ <u>1,212,071</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ <u>1,212,071</u>	\$ <u>1,212,071</u>
Total Expenditures & Transfers-Out	1,212,071	1,212,071
Less: Nonbudgeted Expenditures & Transfers-Out	(515)	(515)
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	<u>1,212,586</u>	<u>1,212,586</u>
Budget Authority	<u>1,893,032</u>	<u>1,893,032</u>
Unspent Budget Authority	\$ <u>680,446</u>	\$ <u>680,446</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ <u>680,446</u>	\$ <u>680,446</u>
Unspent Budget Authority	\$ <u>680,446</u>	\$ <u>680,446</u>

See Notes to the Financial Schedules

CONSUMER COUNSEL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FOR ALL FUNDS

	<u>ADMINISTRATION PROGRAM</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 436,166	\$ 436,166
Employee Benefits	115,387	115,387
Total	<u>551,553</u>	<u>551,553</u>
Operating Expenses		
Other Services	652,157	652,157
Supplies & Materials	10,652	10,652
Communications	10,197	10,197
Travel	28,782	28,782
Rent	27,475	27,475
Other Expenses	39,219	39,219
Total	<u>768,482</u>	<u>768,482</u>
Total Expenditures & Transfers-Out	<u>\$ 1,320,035</u>	<u>\$ 1,320,035</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
State Special Revenue Fund	\$ 1,320,035	\$ 1,320,035
Total Expenditures & Transfers-Out	1,320,035	1,320,035
Less: Nonbudgeted Expenditures & Transfers-Out	(615)	(615)
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	1,320,650	1,320,650
Budget Authority	1,908,373	1,908,373
Unspent Budget Authority	<u>\$ 587,723</u>	<u>\$ 587,723</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 587,723	\$ 587,723
Unspent Budget Authority	<u>\$ 587,723</u>	<u>\$ 587,723</u>

See Notes to the Financial Schedules

**CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2014 and 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Montana Consumer Counsel uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (State Special Revenue). In applying the modified accrual basis, the Montana Consumer Counsel records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Montana Consumer Counsel to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the Montana Consumer Counsel receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Montana Consumer Counsel uses the following funds:

Governmental Fund Category:

State Special Revenue Fund –to account for proceeds of specific revenue sources legally restricted to expenditures for specific state program purposes. Legislative appropriation is required to spend from this fund.

The State provides funding for the Montana Consumer Counsel through revenue-sharing.

CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2014 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Montana Consumer Counsel. Expenditures for termination pay are currently absorbed in the annual operational costs of the Montana Consumer Counsel. At June 30, 2015 and 2014, the Montana Consumer Counsel had liabilities for compensated absences of \$89,749 and \$69,619, respectively.

2. PENSION PLAN

Plan Description

The Public Employees' Retirement System (PERS) is a statewide retirement plan established in 1945 and governed by Title 19, Chapters 2 and 3 of the Montana Code Annotated. The PERS is a mandatory multiple-employer, cost-sharing plan administered by the Public Employees' Retirement Administration (PERA).

PERS provides retirement, disability, and death benefits to plan members and their beneficiaries.

Benefits are based on eligibility, years of service, and highest average compensation. Members' rights become vested after five years of service.

The plan is included in a comprehensive annual financial report that includes financial statement and other required supplemental information. The report is available at the following address:

100 North Park Avenue Suite 200, P.O. Box 200131, Helena, MT 59620-0131

**CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2014 and 2015**

2. PENSION PLAN (Continued)

Funding Policy

Contribution rates for the plan are required and determined by State law. The PERS rates for employees and employers expressed as a percentage of covered payroll, were as follows:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
2015 (all members effective 7/1/2014)	8.27%	7.9%	16.17%
2014 (all members effective 7/1/2013)	8.17%	7.9%	16.07%
2013 (members hired prior to 7/1/11)	7.17%	6.9%	14.07%
2013 (members hired after 7/1/11)	7.17%	7.9%	15.07%

The amounts contributed to the plan by the Montana Consumer Counsel were as follows:

	<u>Employer Contributions</u>
June 30, 2015	\$ 35,111
June 30, 2014	\$ 33,002
June 30, 2013	\$ 24,664
June 30, 2012	\$ 21,547

3. DIRECT ENTRIES TO FUND EQUITY

Direct entries to fund equity in the State Special Revenue Fund include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

**CONSUMER COUNSEL
NOTES TO FINANCIAL SCHEDULES
June 30, 2014 and 2015**

4. NON BUDGETED REVENUES AND TRANSFERS-IN

Non Budgeted Revenues and Transfers-In include Jury Duty Fees of \$14 for fiscal year ended June 30, 2014 and \$54 for fiscal year ended June 30, 2015.

5. BUDGETED REVENUES AND TRANSFERS-IN

The Budgeted Revenues and Transfers-In amount reflects the Department of Revenue's Consumer Counsel Tax amount to be collected and transferred to the agency. The Montana Consumer Counsel does not generate revenue so these amounts should be recorded by the Department of Revenue and not by the agency.

6. OPERATING LEASE

The Montana Consumer Counsel entered into a lease agreement for office space on May 1, 2010 and terminating on April 30, 2013. This lease is renewed every three years. The current lease agreement began May 1, 2013 and terminates on April 30, 2016. The rent is increased annually on the anniversary date of the lease. Total rent expense was \$28,525 and \$27,475 for the fiscal years ended 2015 and 2014, respectively. Future minimum lease payments due under this lease are \$24,500 for the fiscal year ended 2016.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial schedules of the Consumer Counsel, for the fiscal years ended June 30, 2015 and 2014, as listed in the table of contents, and have issued our report thereon dated January 5, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Consumer Counsel's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Consumer Counsel's internal control. Accordingly, we do not express an opinion on the effectiveness of the Consumer Counsel's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be a significant deficiency. We consider the following deficiency in the Consumer Counsel's internal control to be a significant deficiency:

The Consumer Counsel lacks internal controls over the recording of revenue estimates necessary to ensure the accuracy of the Schedule of Total Revenues and Transfers-In.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Consumer Counsel's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rudd & Company, PLLC

Helena, Montana
January 5, 2016

Montana Consumer Counsel



Robert A. Nelson
Consumer Counsel

Lawrence P. Nordell, *Economist*
Paul Schulz, *Rate Analyst*
Suzanne Snow, *Office Manager*
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111 North Last Chance Gulch
Suite 1B
PO Box 201703
Helena, Montana 59620-1703

January 13, 2015

Rudd & Company
1003 11th Avenue, Suite A
Helena, Montana 59601

Re: Consumer Counsel Audit Response

Dear Rudd & Company PLLC:

We have reviewed the draft Financial Compliance Audit Report for the two fiscal years ended June 2015. Please find below the agency's response to the deficiency considered to be significant in the internal controls over the recording of revenue estimates:

The Consumer Counsel lacks internal controls over the recording of revenue estimates necessary to ensure the accuracy of the schedule of Total Revenues and Transfers-In.

The Consumer Counsel concurs.

The agency has updated its budget procedures and implemented comparative reporting to ensure the accuracy of the Schedule of Total Revenues and Transfers-In.

We wish to thank your staff for the professionalism and courtesy with which the audit was conducted.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert A. Nelson".

Robert A. Nelson
Consumer Counsel

cc. Jennifer Erdahl, Audit Manager, Legislative Audit Division.